

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0882-07
Bill No.: SCS for HCS for HB 289
Subject: Economic Development; Taxation and Revenue.
Type: Original
Date: April 14, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$0	(\$60,000 to \$162,060,000)	(\$60,000 to \$162,060,000)
Total Estimated Net Effect on General Revenue Fund **	\$0	(\$60,000 to \$162,060,000)	(\$60,000 to \$162,060,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
State Supplemental Downtown Development *	\$0	\$0	\$0
State Supplemental Rural Development *	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds **	\$0	\$0	\$0

* Income and expenses net to a zero fiscal impact.

** The fiscal impact of the \$60,000 for the satellite enterprise zone could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0 to \$162,000,000	\$0 to \$162,000,000	\$0 to \$162,000,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission, Office of the State Treasurer** and the **Department of Transportation** each assume this proposal would not fiscally impact their respective agencies.

Officials from the **Department of Agriculture - Missouri Agriculture and Small Business Development Authority (MASBDA)** state they are charged with the approval of applications resulting from this proposal. MASBDA assumes that staff time requirements can be handled by current staff. However, MASBDA will probably incur some legal expense with each application received as the board will want a legal opinion prior to approving the application. The MASDBA assumes a cost from this proposal of \$0 to \$10,000 per year.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal has the following sections which would have fiscal impact;

Section 99.845. 8. Adds new language stating the municipality or authority must prove that the incremental increase in state sales tax revenue is from new sources as a result of the state TIF project for that particular area.

Section 99.939. 3. Allows the General Assembly to appropriate up to five percent of state sales tax increment portion of other net new revenues generated by the development projects to the "community development corporation revolving fund", beginning January 1, 2004. Also states that at no time shall the sum of grants exceed one million five hundred dollars annually. Other net new revenues are defined as, the amount of state sales tax increment or state income tax increment or the combination of the amount of each increment. This may increase Total State Revenue, but this section could have a negative impact on the General Revenue Fund.

Section 99.960. 1 and 4. Allows a municipality to submit an application to the Missouri Development Finance Board for approval of the use of other net new revenues to fund one or more development projects through state supplemental downtown development financing. Subsection 4 states that at no time shall the annual amount of other net new revenues approved for state supplemental downtown development financing exceed one hundred million dollars. There is no impact to Total State Revenue for these sections.

Section 99.963. 2. Requires the Department of Revenue to submit the first one hundred fifty million dollars of other net new revenues to the treasurer for deposit into the state supplemental downtown development fund. There is no impact to Total State Revenue, but this section would have a negative impact of \$150 million on the General Revenue Fund.

Section 99.1045. 1 and 4. Allows a municipality to submit an application to the Missouri agricultural and small business development authority for approval of the use of other net new revenues to fund one or more development projects through state supplemental rural development financing. Subsection 4 states that at no time shall the annual amount of other net new revenues approved for state supplemental rural development financing exceed twelve million dollars.

ASSUMPTION (continued)

Section 99.1048. 2. Requires the Department of Revenue to submit the first twelve million dollars of other net new revenues to the treasurer for deposit into the state supplemental rural development fund. There is no impact to Total State Revenue, but this section would have a negative impact of \$12 million on the General Revenue Fund.

Officials from the **Department of Revenue (DOR)** state they will have to do programming on the withholding and MITS mainframe systems to be able to process new type returns and track and deposit the revenue into the special fund. MITS is estimated to take 2,768 hours (4 FTE for 4 month) \$92,340 to handle the programming changes. Withholding tax system mainframe changes will take an estimated 2,400 hours of programming at a cost of \$80,064. Total costs for programming both systems will be \$172,404. DOR will have to design a return that will be used by these businesses. There will be some printing costs involved, but costs would be unknown until actual applications are processed.

It is assumed that the processing of these new returns can be absorbed within Taxation, however, if this is incorrect once an area has been designated, Taxation will request processing technicians through the budget process.

Customer Assistance anticipates that this legislation will create numerous questions from businesses and taxpayers within the approved development projects. One Tax Collection Tech I will be needed for every 24,000 additional calls received on this legislation and One Taxpayer Service Rep I for every 5,200 calls/walk ins received in our Tax Assistance Center.

In total, DOR anticipates costs of \$241,688 in FY 2004 and roughly \$70,000 per year thereafter.

Oversight assumes the additional FTE requested by DOR may not be necessary, and therefore, have not reflected it on the fiscal note. Oversight assumes that if the volume of taxpayer and business inquiries is large, that DOR may request additional FTE through the normal budgetary process. Oversight has reflected the programming costs estimated by DOR in the downtown fund.

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact for this version of the proposal!

However, in response to a similar proposal from earlier this year that established the Missouri Downtown Economic Stimulus Act, officials from the DED stated that it appears the mechanism for using state revenue for a project would allow 100% of the state increment to go back to a

project, thus

ASSUMPTION (continued)

there would be no net benefit to the state and perhaps a net loss to the state in TSR.

Assuming that the program would require work on at least 25 projects per year and an amount of up to \$100 million total, DED assumes it would need one Economic Development Incentive Specialist II (at \$37,488 annually) plus associated costs to administer their part of the program. The DED costs would need to be appropriated through General Revenue. A billing could be sent and costs recovered from the locals from the increment funds. The reimbursement would be paid back to GR funds when received.

Applications for state financing are made to the Missouri Development Finance Board (MDFB), which forwards its recommendation to DED. The MDFB anticipated the need for one professional (at \$55,000 annually) and one support person (at \$28,500 annually), plus associated costs to perform the work required of the Board. The MDFB assumed a total cost of roughly \$170,000 in each of the three fiscal years in the fiscal note. All cost for MDFB are assumed to be local because they are assessed and re-paid.

In response to a similar proposal from last year, the MDFB assumed they could administer the program with one additional FTE. Therefore, **Oversight** has reduced the expenses of the MDFB to reflect the one professional FTE at costs anticipated on last years' fiscal notes.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist II to correspond to other such positions within DED. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Also, in response to a similar proposal from earlier this year that established the Missouri Rural Economic Stimulus Act, officials from DED stated the bill would provide funding to development projects which are defined as renewable fuel production facilities or projects. It authorizes the creation of an "authority" that will oversee the projects in a development area/district. 99.1045 3. RSMo would require DED to review the project to make sure the state benefit exceeds the cost of the project and issue a certificate of approval. DED can recover the cost of the work from the authority. 99.1048 RSMo. says DED administers the State Supplemental Rural Development Fund and disburse funds each year.

ASSUMPTION (continued)

It is unknown at what the level of appropriation would be. Funds are to be disbursed on a pro rata basis if there are not sufficient funds to cover the cost of the certificate of approvals presented. DED is also required to receive annual information on the status of the projects and prepare a report for the Governor, Speaker of the House, and the President Pro Tempore of the Senate.

DED anticipated the funding will come from funds raised by this bill but that funding will need to be appropriated from general revenue (GR) each year to cover the costs. Any funds paid for DED and DOR services would be recovered after the fact and repaid to GR. It is uncertain of the volume of development districts that will be created or projects and the level of appropriation that would be made to the State Supplemental Rural Development Fund. Therefore the volume of work is unknown. DED would anticipate the need for professional contract help to prepare economic analysis, one program person to coordinate and possibly some clerical assistance. Funding for forms and normal operating costs would be incurred. Additional printing costs would be incurred for preparation of annual reports. Costs listed are estimated and could be lower or higher. The total cost is just an estimation and could vary greatly depending on participation statewide.

DED assumes cost for the two new FTE, a Economic Development Incentive Coordinator (at \$43,308 annually) and a Clerk IV (at \$26,460 annually), plus fringe benefits and other expenses, would total roughly \$140,000 per year.

Oversight assumes DED would not require the additional clerical position and that additional floor space would not be necessary for the one additional FTE. Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist II to correspond to other such positions within DED. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

In response to other proposal this year that established satellite enterprise zones, officials from DED stated the creation of an additional satellite enterprise zone would not have enough immediate impact on DED to warrant additional personnel or expenditures. At some point in the future, enough additional enterprise zone credits could be issued that would require an additional person. At that time, DED would request additional funding.

DED states the average cost for each satellite enterprise zone is \$60,000 to unknown. The costs can vary greatly based on the number of qualifying businesses within the satellite zone.

ASSUMPTION (continued)

In response to other legislation that established satellite enterprise zones, officials from the **Department of Insurance (INS)** stated the designation of an additional satellite enterprise zone will increase the areas that receive enterprise zone tax credits. If insurance companies invest or expand into the new enterprise zone, they will be eligible for additional tax credits, reducing premium tax revenue. Premium tax revenue is split evenly between General Revenue and the County Foreign Insurance fund which is later distributed to school districts. INS is unable to project how much in additional tax credits may be generated and what effect it will have on premium tax collections. Fiscal impact will be an unknown loss of revenue to GR and the County Foreign Insurance fund.

Oversight assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to new or expanding businesses after holding the required public hearings on the matter, therefore, has estimated the local impact of the new satellite enterprise zone as zero. The fiscal note does not reflect any indirect positive result that may occur because of the tax credits issued. Oversight has utilized DED's estimated average of \$60,000, however, actual credits earned and utilized could vary greatly.

This proposal may result in a loss of Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE			
<u>Loss</u> - Satellite Zone in Springfield *	\$0	(\$60,000)	(\$60,000)
<u>Transfer Out</u> - Incremental state sales and income taxes directed to the State Supplemental Downtown Development Fund	\$0	\$0 to (\$150,000,000)	\$0 to (\$150,000,000)

Transfer Out - Incremental state sales and
 income taxes directed to the State Rural
 Development Fund

	\$0 to	\$0 to
<u>\$0</u>	<u>(\$12,000,000)</u>	<u>(\$12,000,000)</u>

**ESTIMATED NET EFFECT ON THE
 GENERAL REVENUE FUND ***

	(\$60,000 to	(\$60,000 to
<u>\$0</u>	<u>\$162,060,000)</u>	<u>\$162,060,000)</u>

*** Note: the fiscal impact of the satellite enterprise zone could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

**STATE SUPPLEMENTAL
 DOWNTOWN DEVELOPMENT
 FUND**

Income - DED is allowed to charge a fee
 and recover costs to reimburse the state
 for COA, DOR & DED expenses from
 local projects

\$248,434	\$159,801	\$155,044
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Costs - Department of Revenue
 Programming charges

(\$172,404)	\$0	\$0
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Costs - MDFB

Personal Service (1 FTE)	(\$41,667)	(\$51,250)	(\$52,531)
Fringe Benefits	(\$16,863)	(\$20,741)	(\$21,259)
Expense and Equipment	<u>(\$17,500)</u>	<u>(\$21,630)</u>	<u>(\$22,280)</u>

Total Costs - MDFB

<u>(\$76,030)</u>	<u>(\$93,621)</u>	<u>(\$96,070)</u>
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Costs - DED

Personal Service (1 FTE)	\$0	(\$32,338)	(\$33,147)
Fringe Benefits	\$0	(\$13,087)	(\$13,415)
Expense and Equipment	<u>\$0</u>	<u>(\$20,755)</u>	<u>(\$12,412)</u>

Total Costs - DED

<u>\$0</u>	<u>(\$66,180)</u>	<u>(\$58,974)</u>
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<u>Transfer In</u> - from General Revenue Fund	\$0	\$0 to \$150,000,000	\$0 to \$150,000,000
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<u>Transfer Out</u> - to various local economic development projects.	\$0	\$0 to (\$150,000,000)	\$0 to (\$150,000,000)
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ESTIMATED NET EFFECT TO THE STATE SUPPLEMENTAL DOWNTOWN DEVELOPMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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STATE SUPPLEMENTAL RURAL DEVELOPMENT FUND

<u>Income</u> - DED is allowed to charge a fee and recover costs to reimburse the state for COA, DOR & DED expenses from local projects	\$146,797 to \$156,797	\$170,776 to \$180,776	\$175,673 to \$185,673
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Costs - MASBDA	\$0 to (\$10,000)	\$0 to (\$10,000)	\$0 to (\$10,000)
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<u>Costs</u> - DED			
Personal Service (1 FTE)	(\$26,291)	(\$32,338)	(\$33,147)
Fringe Benefits	(\$10,640)	(\$13,087)	(\$13,415)
Expense and Equipment	<u>(\$109,866)</u>	<u>(\$125,351)</u>	<u>(\$129,111)</u>
<u>Total Costs</u> - DED	<u>(\$146,797)</u>	<u>(\$170,776)</u>	<u>(\$175,673)</u>

<u>Transfer In</u> from General Revenue Fund	\$0	\$0 to \$12,000,000	\$0 to \$12,000,000
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<u>Transfer Out</u> - to various local economic development projects.	\$0	\$0 to (\$12,000,000)	\$0 to (\$12,000,000)
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ESTIMATED NET EFFECT TO THE STATE SUPPLEMENTAL RURAL DEVELOPMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - from State Supplemental Downtown Development Fund	\$0	\$0 to \$150,000,000	\$0 to \$150,000,000
<u>Transfer In</u> - from State Supplemental Rural Development Fund	<u>\$0</u>	\$0 to <u>\$12,000,000</u>	\$0 to <u>\$12,000,000</u>
ESTIMATED NET EFFECT TO THE LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0 TO \$162,000,000</u>	<u>\$0 TO \$162,000,000</u>

FISCAL IMPACT - Small Business

This proposal would impact small businesses that are within a designated development areas as defined by the municipality's authorities as well as businesses in the newly created satellite zone in St. Joseph.

DESCRIPTION

Tax Increment Financing (Sections 99.845);

The proposal makes changes to the definition of "new state revenues" regarding retail sales taxes.

Missouri Downtown Economic Stimulus Act (Sections 99.918 - 99.980);

This proposal also creates the Missouri Downtown Economic Stimulus Act. The provisions of the proposal shall not be construed to provide funding for sports stadiums or related facilities. Powers in the proposal are to be exercised by authorities created in the proposal.

A Downtown Economic Stimulus Authority may be created in each municipality upon the enactment of an ordinance establishing a development area in accordance with the act. There is also a created a

DESCRIPTION (continued)

RAS:LR:OD (12/02)

Countywide Downtown Economic Stimulus Authority for St. Louis County and St. Charles County. Each Authority will be governed by a Board of Commissioners which will consist of between 5 and 14 members with staggered terms of three years. Commissioners will be appointed by the mayor or chief executive. One of the Commissioners will be appointed by the school district or districts within the development area for a term of three years.

The powers of the Authority shall be exercised by its Board of Commissioners and powers of the authority are specified. The Authority shall be a public body corporate and politic. Powers granted to the authority are specified, excluding the right to acquire property by eminent domain. Certain information must be included in a development plan.

The proposal allows Kansas City, St. Louis City or St. Louis County to enact an ordinance establishing a fund for the purpose of providing funds to a community development corporation. The Community Development Corporation Revolving Fund is created. A board to administer the fund is created. Funding is provided from 5% of the state sales tax increment portion from other net new revenues generated from projects certified for state supplemental downtown development financing.

Prior to the adoption of the ordinance designating the development area, adopting a development plan or adopting a development project, the authority must hold a public hearing. Projects must also cost specified amounts as well as create certain numbers of new jobs depending on the size of the municipality.

A municipality may adopt development financing for the development project area and a special allocation fund for the deposit of certain taxes from the development area to be apportioned or diverted pursuant to the Real Property Tax Increment Allocation Redevelopment Act if all or a part of the development project area becomes subject to tax increment financing. The definition of "baseline year" provides that if state withholding tax revenues and sales tax revenues from businesses other than out-of-state businesses locating in the area decrease in the year following adoption of the ordinance, the baseline year shall be the year after.

The municipality may submit the development plan to the Missouri Development Finance Board for approval of the use of tax increment financing and if submitted must contain certain information. The municipality may request certain information to be verified by the Department of Revenue which must be provided within 45 days of the request. The state supplemental downtown development fund is

DESCRIPTION (continued)

RAS:LR:OD (12/02)

created, and shall consist of;

1. The first \$150 million of net new revenues generated by the development projects;
2. Fees and Costs received from the projects; and
3. Any gifts, contributions, grants or bequests received.

The proposal establishes a Missouri Downtown Economic Stimulus Act Joint Legislative Committee which will consist of ten members of the General Assembly, five from each body.

The Authority must make a report to the Director of the Department of Economic Development by the end of February each year. The Director shall then compile a report for submission to the Governor and General Assembly.

Every five years after the establishment of a development plan, the governing body of the authority must hold a public hearing. The Director of the Department of Economic Development shall provide information and technical assistance as requested by any municipality.

Missouri Rural Economic Stimulus Act (Sections 99.1000 - 99.1060);

A municipality may adopt development financing for the development project area and a special allocation fund for the deposit of certain taxes from the development area to be apportioned or diverted pursuant to the Real Property Tax Increment Allocation Redevelopment Act if all or a part of the development project area becomes subject to tax increment financing.

The municipality may submit the development plan to the Missouri Agricultural and Small Business Development Authority for approval of the use of tax increment financing and if submitted must contain certain information. The municipality may request certain information to be verified by the Department of Revenue which must be provided within 45 days of such request. The state supplemental rural development fund is created, and shall consist of;

1. The first \$12 million of other net new revenues generated by the development projects;
2. Fees and Costs collected from the development projects; and
3. Any gifts, contributions, grants or bequests received.

The proposal establishes a Missouri Rural Economic Stimulus Act Joint Legislative Committee which will consist of ten members of the General Assembly, five from each body.

DESCRIPTION (continued)

The Authority must make a report to the Director of the Department of Economic Development by the end of February each year. The Department of Economic Development and the Department of Revenue shall then compile a report for submission to the Governor and General Assembly.

Every five years after the establishment of a development plan, the governing body of the authority must hold a public hearing. The Director of the Department of Economic Development shall provide information and technical assistance as requested by any municipality.

Satellite Zone in St. Joseph (Section 135.207);

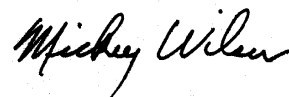
The proposal also establishes an enterprise satellite zone in St. Joseph.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
State Tax Commission
Department of Transportation
Department of Agriculture
Office of the State Treasurer

NOT RESPONDING: Department of Economic Development



MICKEY WILSON, CPA
DIRECTOR
APRIL 14, 2003